JOINT ECONOMIC COMMITTEE
ROBERT F. BENNETT, VICE CHAIRMAN JULY 8, 2005

FY 2005 DEFICIT COULD FALL BELOW $325 BILLION

In May, the Congressional Budget Office (CBO) stated that the budget deficit for FY 2005 would be "in the vicinity of $350 billion," or $15 billion less than its March baseline projection. In its *Monthly Budget Review* for June released today, CBO revised its earlier statement, now estimating that the budget deficit could drop to $325 billion or even lower. "Robust growth" in revenues, namely higher-than-anticipated corporate income tax receipts, is credited for this positive development.

According to CBO, for the first three-quarters of this fiscal year:

- The budget deficit was $76 billion less than the deficit recorded through June of last year.
- Total receipts were about $204 billion – or 14.6% -- higher than last year.
- Individual income tax receipts were $105 billion – or 17.6% -- higher than last year.
  - ❖ Amounts due on individuals' tax returns were higher, and refunds were smaller, compared to last year.
- Social insurance tax receipts were $39 billion – or 6.9% -- higher than last year.
- Receipts from withheld taxes on paychecks (withheld individual income and payroll taxes) were $65 billion – or 6% -- higher than last year.
  - ❖ Growth in withholding suggests that wages and salaries in the national economy are growing.
- Net corporate income taxes were $57 billion – or 41% -- higher than last year.
  - ❖ This is a reflection of profits in 2004 and the first half of 2005. The expiration of depreciation provisions enacted by Congress in 2002 and 2003 also contributed to this growth. CBO anticipates that corporate tax receipts will increase by at least 40% for the fiscal year as a whole.
- Total outlays were 7.4% higher than last year.
  - ❖ Interest outlays were up $18 billion – or 14.5% -- as a result of rising short-term interest rates, growing debt and higher inflation.
  - ❖ Social Security and Medicare continue to grow briskly at 5.4% and 10.1%, respectively, so far this year. Spending also increased significantly at the Departments of Agriculture and Homeland Security, with spending at those agencies rising 20% or more over the first nine months of the fiscal year.